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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Indiana Board for Depositories

We have audited the balance sheet of the

Indiana Board for Depositories

As of June 30, 1999 , and the related statements of revenues expenditures and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana Board for Depositories as of June 30, 1999, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

London Witte Group, LLC

September 28, 1999

INDIANA BOARD FOR DEPOSITORIES

BALANCE SHEET

June 30, 1999

ASSETS

		1999
CURRENT ASSETS		
Cash and cash equivalents	$	3,311,996
Investments (Note 2)		277,880,632
Interest receivable		2,356,327
Collateral from securities lending (Note 2 and 4)		216,568,734
TOTAL CURRENT ASSETS		500,117,689
OFFICE FURNITURE AND EQUIPMENT, NET (Note 3)		42,232
TOTAL ASSETS	$	500,159,921

LIABILITIES AND FUND BALANCE

Accounts payable	$	865,483
Accrued expenses		1,530
Securities lending transactions		216,568,734
TOTAL LIABILITIES		217,435,747
Fund balance		282,724,174
TOTAL LIABILITIES AND FUND BALANCE	$	500,159,921

The accompanying notes are an integral part of these statements.

INDIANA BOARD FOR DEPOSITORIES

Statement of Revenue, Expenditures, and Changes in Fund Balance

Year Ended June 30, 1999

	Amount	Percent
REVENUE		
Investment income	$ 9,753,746	56.6
Securities lending income	7,488,165	43.4
Miscellaneous	225	0.0
TOTAL REVENUE	17,242,136	100.0
EXPENDITURES		
Securities lending fees	7,224,807	41.9
Salaries and wages	69,191	0.4
Employee benefits	13,648	0.1
Maintenance contracts	29,926	0.2
Depreciation	30,123	0.2
Communications expense	13,765	0.1
Computer consulting	24,765	0.1
Professional fees	15,696	0.1
Office supplies	8,741	0.1
Repairs and maintenance	13,198	0.1
Travel	2,471	0.0
Educational services	2,025	0.0
All other	2,144	0.0
TOTAL EXPENSES	7,450,500	43.3
EXCESS OF REVENUES OVER EXPENDITURES	9,791,636	56.7
FUND BALANCE BEGINNING OF YEAR	272,932,538	
FUND BALANCE END OF YEAR	$ 282,724,174	

The accompanying notes are an integral part of these statements.

INDIANA BOARD FOR DEPOSITORIES

Statement of Cash Flows

Year Ended June 30, 1999

		1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$	7,488,165
Cash paid to suppliers and vendors		(7,031,484)
Interest received		12,354,419
All other		225
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		12,811,325
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of furniture and equipment		(21,326)
Proceeds from sale of equipment		0
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		(21,326)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments		(416,859,605)
Proceeds from redemption of investments, net		374,018,115
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		(42,841,490)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(30,051,491)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		33,363,487
CASH AND CASH EQUIVALENTS, END OF YEAR	$	3,311,996

The accompanying notes are an integral part of these statements.

INDIANA BOARD FOR DEPOSITORIES

Statement of Cash Flows

Year Ended June 30, 1999

		1999
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net income (loss)	$	9,791,636
Non-cash items		
Depreciation		30,123
Change in FMV of investments		3,337,521
Decrease (increase) in assets		
Interest receivable		(736,848)
Increase (decrease) in liabilities		
Accounts payable		387,123
Accrued expenses		1,770
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$	12,811,325

The accompanying notes are an integral part of these statements.

INDIANA BOARD FOR DEPOSITORIES

Notes to Financial Statements

Year Ended June 30, 1999

(1) Summary of significant accounting policies

The significant policies followed by the Indiana Board for Depositories are summarized as follows:

Nature of operations - The Indiana Board for Depositories is a component unit of the State of Indiana. The purpose of the Indiana Board for Depositories (Board) is to insure the safekeeping and prompt payment of all public funds deposited in any depository, to the extent they are not covered by insurance of any federal deposit insurance agency, by maintaining and operating in its own name the public deposit insurance fund.

Investing - The Board has the authority to invest, reinvest, and exchange investments of the insurance fund in excess of the cash working balance in any of the following:

a. In bonds, notes, certificates, and other valid obligations of the United States.

b. In bonds, note, certificates, and other securities issued by any federal instrumentality and fully guaranteed by the United States.

c. In bonds, notes, certificates, and other valid obligations of any state of the Untied States or of any political subdivision of Indiana which are issued pursuant to law, the issuers of which, for five (5) years prior to the date of the investment, have promptly paid the principal and interest on their bonds and other legal obligations in lawful money of the United States.

d. In bonds or other obligations of the State Office Building Commission of Indiana.

e. In guarantees of industrial development obligations of credit enhancement obligations or both for the purpose of retaining and increasing employment in existing or new enterprises in Indiana.

f. In investments permitted the State under Indiana Code Sec. 5-13-10.5

g. In guarantees of bonds or notes issued under IC 5-1.5-4-1.

h. In bonds, notes, or other valid obligations of the Indiana Development Finance Authority that have been issued in conjunction with the authority's acquisition, development or improvement of property or other interests for an industrial development project.

i. In notes or other debt obligations of counties, cities, and towns that have been issued under IC 6-1.1-39 for borrowings from the industrial development fund under IC 4-4-8 for purposes of retaining or increasing employment in existing or new enterprises in Indiana.

j. In bonds or other obligations of the Indiana Housing Finance Authority.

Cash and cash equivalents - The Board considers cash and cash equivalents to be cash on hand, in bank accounts, and highly liquid investments with an original maturity of three months or less. At times, such cash may be in excess of the FDIC insurance limit.

INDIANA BOARD FOR DEPOSITORIES

Notes to Financial Statements

Year Ended June 30, 1999

(1) Summary of significant accounting policies (continued)

Depreciation - Depreciation of office furniture and equipment is computed using the straight-line method over five years.

Investments - Investments are reported at fair value based upon quoted market prices for those or similar investments. Investments that do not have an established market are reported at estimated fair value. Gains and losses are determined using the specific identification method.

Revenue recognition - The Board for Depositories accounts for its operations on an accrual basis where revenues earned and expenditures made are recorded in the period earned and incurred.

The Board entered into a bond purchase and pledge agreement with the Indiana Housing Finance Authority (IHFA) pursuant to Public Law 69-1989 and Indiana Code Sec. 5-13-12-7. The agreement provides that IHFA may borrow funds from the Board by issuing one or more bonds having an aggregate principal sum of not more than $5,000,000. The bonds do not bear interest, pursuant to Indiana Code Sec. 5-20-4-9, and any outstanding principal will become due on March 12, 2013. As security for the bonds, the IHFA assigned to the Board a zero-coupon U.S. Treasury STRIP in the amount of $5,000,000 maturing February 15, 2103. In accordance with Accounting Practice Bulletin 21, (APB) transactions where interest rates are affected by legal restrictions prescribed by a governmental agency are not subject to the discounting provisions of APB 21. Accordingly, the IHFA bonds are reported at cost in the financial statements.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

(2) Investments

Investments are categorized as following: Category 1 includes investments that are insured or registered or for which the securities are held by the Board or its agent in the Board's name. Category 2 are investments held by broker-dealers under secured loans. Unrealized gains and losses are recorded as investment income in the period incurred.

Category 1	Carrying Amount	Market Value
U.S. Government and Government Agency Securities	$ 239,763,209	239,763,209
Indianapolis Public Improvement Bond	33,118,031	33,118,031
Indiana Housing Finance Authority Bond	4,999,392	2,175,236
Total Category 1	$ 277,880,632	$ 275,056,476
Category 2 - Securities lent for cash collateral	$ 216,568,734	$ 213,771,689

Following is a schedule summarizing maturities of investments.

(2) Investments (continued)

Investment Maturities	
1 year or less	$ 87,104,987
2-5 years	185,776,253
6-10 years	0
Over 10 years	4,999,392
Total	$ 277,880,632

(3) Office furniture and equipment, net

Office furniture and equipment, net consist of the following:

Cost	
Computer equipment	$ 286,451
Office equipment	2,047
Total Cost	288,498
Accumulated depreciation	246,266
Total Office furniture and Equipment, Net	$ 42,232

Depreciation expense charged to operations was $30,123 for 1999.

(4) Securities lending transactions

State statutes permit the Board to lend securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Board's custodian lends securities of the type on loan at year-end for collateral in the form of cash or other securities at 102 percent of the fair value of the securities lent.

At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the Board. The contract with the Board's custodian requires it to indemnify the Board if the borrowers fail to return the securities (and if the collateral is inadequate to replace securities lent) or fail to pay the Board for income distributions by the securities' issuers with the securities on loan.

All securities loans can be terminated on demand by either the Board or the borrower, although the average term of the loan is four days. Cash collateral is invested in the lending agent's short term investment pool, which at year end, had an average maturity of sixteen days. The Board cannot pledge or sell collateral securities received unless the borrower defaults.

(5) Pension plan

The Board is a member of the Public Employee Retirement Fund (PERF), which is a defined benefit plan covering employees meeting certain eligibility requirements. The PERF Retirement Plan is a multi-employer plan which acts as a common investment and administrative agent for State of Indiana employees of the various subdivisions and instrumentality's of the State of Indiana. All employees of the Board participate in this plan.

Employer contributions for the year ended June 30, 1999 were $4,927. Separate information concerning the accumulated benefit obligation and actuarially determined benefit obligation is not material to the financial position of the Board and, accordingly, is not presented.

(6) Actuarial study

During 1996, an independent actuarial evaluation was performed to determine the necessary level of funding to provide for potential future losses. Based upon the actuarial review, it appears that $240,000,000 is appropriate for maximum net expected losses from projected bank failures. A subsequent study has been undertaken to ascertain whether the maximum net expected losses have changed since the 1996 study. The results of the actuarial study are not expected to be available until the year 2000.

(7) Commitments

During 1994, the Board entered into a bond purchase and pledge agreement with the IHFA pursuant pursuant to Public Law 69-1989 and Indiana Code Sec. 5-13-12-7. The agreement provides that IHFA may borrow funds from the Board by issuing one or more bonds having an aggregate principal sum of not more than $5,000,000. The bonds do not bear interest, pursuant to Indiana Code Sec. 5-20-4-9, and any outstanding principal will become due on March 12, 2013. As security for the bonds, the IHFA assigned to the Board a zero-coupon U.S. Treasury STRIP in the amount of $5,000,000 maturing February 15, 2013. At June 30, 1999, the Board held IHFA bonds of approximately $5,000,000.

(8) Subsequent event

Effective July 15, 1999, the Board entered into a 5 year lease for the rental of office space. The minimum annual rent is $19,447.